

**REPORT TO THE CITY COUNCIL
BY THE CITY INTERNAL AUDITOR**

**AUDIT OF THE
COOPERATIVE ENDEAVOR AGREEMENT
BETWEEN THE CITY OF SHREVEPORT AND THE
INDEPENDENCE BOWL FOUNDATION, INC.**

INTERNAL AUDIT REPORT (IAR) 210903-07

OCTOBER 23, 2003



October 23, 2003

Councilman Monty Walford
Chairman, Shreveport City Council

Dear Councilman Walford:

Subject: IAR 210903-07 - Audit of the Cooperative Endeavor Agreement between the City of Shreveport and the Independence Bowl Foundation, Inc.

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

jm

EXECUTIVE SUMMARY
AUDIT OF THE
COOPERATIVE ENDEAVOR AGREEMENT
BETWEEN THE CITY OF SHREVEPORT AND THE
INDEPENDENCE BOWL FOUNDATION, INC.
INTERNAL AUDIT REPORT (IAR) 210903-07

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Cooperative Endeavor Agreement between the City of Shreveport and the Independence Bowl Foundation, Inc., (Foundation) was entered into on August 13, 2001. The Foundation, which was incorporated on December 12, 1980, under the name Sports Foundation, Inc., is a 501 (c) (3) non-profit organization located in the City of Shreveport. It is currently managed and controlled by a Board of Directors consisting of 87 members including Life Directors, Ex-Officio Members, and Title Sponsors. The Foundation also employs an office staff of seven members: an Executive Director, Ticketing/Business Manager, Assistant Executive Director/Public Relations, Director of Sales, Membership/Account Manager, Administrative Assistant/Receptionist, and an Intern. The purpose of the Foundation is to sponsor and produce the Independence Bowl and related events and activities in the City. The Foundation consists of numerous volunteer committees which carry out all its functions.

OVERVIEW OF SIGNIFICANT ISSUES

Overall, we found that provisions of the agreement were complied with and that the organization was operating efficiently and effectively.

Based on our review, however, we have identified several issues that management should review to improve operational efficiency and effectiveness. Our findings address the following concerns:

- Inadequate and Insufficient Documentation of Financial Records.
- Policies for Charitable Donations/Contributions.
- Policies for Intern Program.
- Physical Inventory.
- Board Meeting Minutes.
- Solicitation of Membership.
- Executive Committee.
- Conflict of Interest Disclaimers for the Board of Directors.

INDEX

Executive Summary	1
Index	2
Objectives	3
Scope and Methodology	3
Background	3
Conclusions/Findings/Recommendations	4

Findings

1. Inadequate and Insufficient Documentation of Financial Records	5
2. Policies for Charitable Donations	6
3. Policies for the Intern Program	7
4. Physical Inventory	8
5. Board Meeting Minutes	8
6. Solicitation of Membership.....	9
7. Executive Committee.....	9
8. Conflict of Interest Disclaimers for the Board of Directors	10

**AUDIT OF THE
COOPERATIVE ENDEAVOR AGREEMENT
BETWEEN THE CITY OF SHREVEPORT AND THE
INDEPENDENCE BOWL FOUNDATION, INC.
INTERNAL AUDIT REPORT (IAR) 210903-07**

OBJECTIVES

We have completed a review of the Cooperative Endeavor Agreement between the City of Shreveport and the Independence Bowl Foundation, Inc. (Foundation). The objectives of the audit were to determine whether the:

- Foundation is complying with the provisions of the agreement;
- Foundation is complying with applicable city, state, and federal laws and regulations;
- Foundation has maintained financial records and established adequate internal controls to account for the funds provided under the contract;
- City of Shreveport has properly administered and monitored its contract with the Foundation.

SCOPE AND METHODOLOGY

Our audit, which covered fiscal years 2001 to June 30, 2003, was performed in accordance with applicable generally accepted governmental auditing standards as defined in Section A.20 of the Internal Audit Office Operating Instructions Manual. The scope of internal controls was limited to assessing the general controls surrounding the areas of contractual compliance and the aforementioned objectives. General audit procedures included, but were not limited to:

- Interviewing appropriate personnel.
- Determining compliance with contractual provisions.
- Observing operations and ongoing activities.
- Reviewing records, reports, and any other applicable documentation.
- Examining and analyzing current corporate bylaws.

BACKGROUND

The Cooperative Endeavor Agreement between the City of Shreveport and the Independence Bowl Foundation, Inc. was entered into on August 13, 2001. The Foundation, which was incorporated on December 12, 1980, under the name Sports Foundation, Inc., is a 501 (c) (3) non-profit organization located in the City of Shreveport.

It is currently managed and controlled by a Board of Directors consisting of 87 members including Life Directors, Ex-Officio Members, and Title Sponsors. The Foundation also employs an office staff of seven members: an Executive Director, Ticketing/Business Manager, Assistant Executive Director/Public Relations, Director of Sales, Membership/Account Manager, Administrative Assistant/Receptionist, and an Intern. The purpose of the Foundation, is to sponsor and produce the Independence Bowl and related events and activities in the City. The Foundation consists of numerous volunteer committees which carry out all its functions. The majority of the Foundation's funding comes from state and local government sponsors, corporate

sponsors, title sponsors, ticket sales, and television fees. The current title sponsor for the Independence Bowl, MainStay Funds, has been the bowl game's sponsor since 2001. But the sponsor has decided to decline its 2004 option of being the title sponsor. Therefore, the Independence Bowl will be searching for a new title sponsor for the 2004 game.

The Foundation has made several accomplishments during 2001 through 2003. Noted below are just a few of the many accomplishments:

- In 2002, the Foundation delivered an all-time high in team pay-outs of \$1,260,970 per team.
- The Foundation finished in the black for the tenth straight time in 2002.
- The Foundation was responsible for a substantial part of the renovation of the Press Box at Independence Stadium, including funding, construction, and remodeling.
- The Foundation has secured state funding for three consecutive years.
- In 2002, the Foundation began regional efforts to expand the reach of the Bowl in Natchitoches, Longview, Texarkana, and Fort Polk.
- In 2001, the Foundation arranged for the financing and fund-raising of a new \$1.5 million scoreboard/video board/message system—a public/private partnership with the City of Shreveport.
- Recently in 2003, the Foundation refinanced the scoreboard loan; saving approximately \$45,000 in annual interest payments.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office would like to offer its appreciation for the courtesy, patience, and cooperation extended to us by the staff of the Foundation during the audit.

Overall, we found that provisions of the Cooperative Endeavor Agreement were complied with and that the organization was operating efficiently and effectively. Based on our review, however, we have offered recommendations concerning the operations of the office that may serve to enhance and significantly improve the operating effectiveness and efficiency of the organization. Additionally, we recommend suggestions concerning the Foundation's corporate bylaws. We suggest the following recommendations:

- Maintain adequate supporting documentation for all expenditures.
- Follow established procedures regarding authorized signatures for checks.
- Consider developing policies on selection criteria for donating funds to charities, groups, causes, etc.
- Include in the policies and procedures manual guidelines regarding payment of housing for interns.
- Conduct a physical inventory, maintain a fixed assets listing, and properly tag all fixed assets.
- Continue to ensure documented minutes are maintained for all board meetings.
- Include information detailing membership opportunities on the web site to increase the population of potential new members.
- Revise the bylaws to include an Ex-Officio member on the Executive Committee.
- Consider amending the bylaws to include provisions therein to address possible conflict of interest situations, such as engaging in or doing business with the Foundation, related time frames for conducting business with the Foundation, and employment by the Foundation.

1. Inadequate and Insufficient Documentation of Financial Records

Criteria: Good internal controls dictate that all expenditures are supported by adequate and sufficient documentation.

Condition: We examined a sample of 122 (8%) out of approximately 1,530 checks for July 2001 through June 2003 and noted the following:

- Supporting documentation could not be located for ten expenditures totaling \$20,467.
- Six expenditures had inadequate documentation (handwritten notes or emails informing the business manager of the amount to pay) totaling \$2,590.
- One check in the amount of \$5,000 had only one signature (per Foundation's policy and procedure manual, checks over \$2,000 require two signatures).

Effect:

- Potential for fraud, waste, and abuse.
- Potential for unauthorized purchases/expenditures.

Cause: Supporting documentation may have been misplaced or there was no documentation maintained.

Recommendation: We recommend that the Foundation:

- Maintain adequate supporting documentation for all expenditures.
- Follow established procedures regarding authorized signatures for checks.

Management Plan of Action: Please note that the majority of the exceptions occurred prior to a change in accounting practices and a change in personnel (Business Manager). This transition took place in January 2002. In addition, the one check that was over \$2,000 was purely an oversight. The Bowl Foundation's Personnel Policy Manual does not address volunteer expenditures. Therefore, the area that deals with business expenses incurred by employees will be expanded to include expenses incurred by volunteers. In addition, measures will be taken to ensure that all disbursements have adequate supporting documentation or no reimbursement funding will be distributed. Volunteers' expenditures will be expended through their own personal means and reimbursed upon proper submission of receipts with a reimbursement request form.

Timetable: Implement practice immediately. The policy change will be drafted before and recommended for adoption at the next annual meeting of the Bowl Foundation, which is to be held by March 15, 2004. The policy will be voted on at this important meeting of the general membership of the Independence Bowl Foundation.

2. Policies for Charitable Donations

Criteria: To alleviate the appearance of favoritism, good management practice dictates that policy and criteria should be developed to govern and guide the operations of an entity, especially charitable donations.

Condition: The Foundation had not developed any documented policies in regard to donations to organizations. We noted the Foundation had made a donation to an organization. (This is key when considering that a source of the Foundation's funding comes from local and state governments.)

Effect:

- Possible adverse publicity.
- Possible appearance of favoritism.

Cause: Management may have failed to anticipate the perception of favoritism when making financial donations to other charities and organizations.

Recommendation: In order to ensure consistency and fairness, management should consider developing policies on selection criteria for donating funds to charities, groups, causes, etc.

Management Plan of Action: Develop a policy that deals with charitable donation requests and potential contributions.

Timetable: Like the other policy, this new policy will be developed for approval at the next annual meeting. This will insure that it is in place before the next fiscal year.

3. Policies for the Intern Program

Criteria: It is the policy of the Foundation to routinely hire a minimum of one intern each year to assist in the Foundation's day-to-day operations (office management, media and public relations, publications, volunteer coordination, event coordination, marketing and sponsorships, etc.). The intern is compensated at least \$500 per month with no health benefits provided.

Condition: We noted that the Foundation's policies and procedures manual addresses the issue of compensation and health benefits for interns but does not address the issue of payment of housing for interns. During our fieldwork, we noted the Foundation paid rent for the interns in 2002 and 2003, which ranged from \$495 to \$530 per month.

Effect: Policies and procedures could be violated.

Cause: Foundation's management had not developed documented policies addressing the issue of payment of housing for interns.

Recommendation: The Foundation's policies and procedures manual should include guidelines regarding payment of housing for interns.

Management Plan of Action: Further expand intern section in policy manual to address the organization paying for housing for interns that come from out of the area.

Timetable: Policy change to be developed and approved at the annual meeting which will be held before March 15, 2004.

4. Physical Inventory

Criteria: For many entities fixed assets represent a substantial investment. Control over these items is necessary if any entity is to make an effective contribution to resource management. Therefore, it is important that evidential matter provide sufficient and competent assurance that fixed assets physically exist and are properly reflected in the records.

Condition: During our fieldwork, we noted that management had not taken a physical inventory of assets, such as office equipment, furnishings, etc.

<Auditor's Note: Foundation does maintain an inventory system of sponsor logos and event and stadium signage.>

Effect: Potential for fraud, waste, and abuse of resources.

Cause: Other priorities have precluded a physical inventory from being taken.

Recommendation: We recommend that management conduct a physical inventory, maintain a fixed asset listing, and properly tag all fixed assets.

Management Plan of Action: Management has conducted a physical inventory, created a fixed asset listing, and tagged all fixed assets.

Timetable: This process has been implemented and finished on October 8, 2003.

5. Board Meeting Minutes

Criteria: Article VII, Section 2, "Meetings," of the corporate bylaws states that regular meetings of the Board of Directors shall be held. Traditionally, this has meant monthly meetings to address oversight and governance issues for the Foundation. Minutes of the meetings should be maintained to ensure documentary evidence exists regarding Board authorizations, decisions, and plans.

Condition: Documented minutes were not available for May and November, 2001.

Effect:

- Potential for ineffective and/or inadequate oversight of Foundation operations.
- Disputes may arise regarding Board decisions.

Cause: Misplaced Board Minutes.

Recommendation: We recommend that minutes be maintained for all Board meetings.

Management Plan of Action: Documented minutes will continue to be taken as will measures to ensure the proper placement of minutes in physical files and the keeping of electronic files of minutes.

Timetable: Immediately

6. Solicitation of Membership

Criteria: As Internet use continues to skyrocket, organizations that are interested in maximizing profits, service, and exposure have established web sites detailing information about their organizations and related services or products.

Condition: We noted that the Foundation does maintain a web site, but lacks information detailing membership opportunities.

Effect: Loss of potential members.

Cause: Membership is solicited through brochures and word-of-mouth by the respective committee and present members of the Foundation.

Recommendation: We recommend that management include information detailing membership opportunities on the web site to increase the population of potential new members.

Management Plan of Action: A membership form that can be printed out will be put on the website. In the future, arrangements will be made such that membership can be paid for through the website.

Timetable: Immediately and early 2004.

7. Executive Committee

Criteria: Article IV, Section 5, "Executive Committee," of the corporate bylaws states that, "...there shall be an elected Executive Committee which shall consist of the Chairman, Vice Chairman, First Vice Chairman, Second Vice Chairman, Immediate Past Chairman, Secretary, Treasurer, and six (6) other at-large Directors elected by the membership."

Condition: We noted from reviewing the list of members on the Executive Committee that there was an Ex-Officio member included on the committee. The bylaws do not include an Ex-Officio member on the Executive Committee.

Effect: Non-compliance with corporate bylaws.

Cause: The Board of Directors has not revised the bylaws to include an Ex-Officio member on the Executive Committee.

Recommendation: We recommend that the Board of Directors revise the bylaws to include an Ex-Officio member on the Executive Committee.

Management Plan of Action: The Vice Chairman and author of the revised By-Laws will present changes to incorporate the Ex-Officio member to the Executive Committee in a new revised edition of the By-Laws.

Timetable: By March 15, 2004, though approved by the membership at the annual meeting.

8. Conflict of Interest Disclaimers for the Board of Directors

Criteria: To help ensure the appearance of impartiality and objectivity, Board members should be required to sign a conflict of interest disclaimer preventing them from engaging in any contract for work, materials, or services related to the Foundation.

Condition: We noted that the corporate bylaws did not prevent Officers or Board members from engaging in or doing business with the Foundation. This may be construed as a conflict of interest. Additionally, there was no prohibition against Board members becoming employees of the Foundation.

Effect: Possible negative publicity.

Cause: Lack of management oversight.

Recommendation: We recommend that the Foundation's Board consider amending the bylaws to include provisions therein to address possible conflict of interest situations, such as engaging in or doing business with the Foundation, related time frames for conducting business with the Foundation, and employment by the Foundation.

Management Plan of Action: A new amendment to the By-Laws that will closely monitor members of the Board of Directors engagement for any contract for work, materials or services related to the Foundation. An approval/disapproval process by the Board of Directors will be established within this By-law change.

Timetable: By March 15, 2004, at the Annual meeting.

Prepared by:

Tamika Ford
Staff Auditor

Approved by:

Leanis L. Graham, CPA, CIA
City Internal Auditor

TF:jm

c: Mayor
CAO
City Attorney
Clerk of Council
City Council
External Auditor